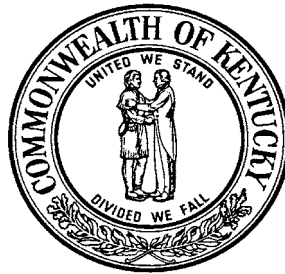


**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ELLIOTT COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Elliott County Fiscal Court audit for fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$1,414,348 from the beginning of the year, resulting in a cash surplus of \$1,827,578 as of June 30, 2002. Revenues increased by \$2,239,838 from the prior year and disbursements increased by \$916,876.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$1,960,000. Future collections of \$3,289,452 are needed over the next 21 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$1,770,000 as of June 30, 2002. Future principal and interest payments of \$2,788,700 are needed to meet these obligations.

Report Comment:

- The County Should Include All Accounts On Their Financial Statements

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Elliott County, Kentucky, as of June 30, 2002, and the statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Elliott County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Elliott County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Elliott County, Kentucky, as of June 30, 2002, and the revenues received and expenditures paid for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2003, on our consideration of Elliott County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Elliott County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- The County Should Include All Accounts On Their Financial Statements

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 5, 2003

ELLIOTT COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Charles R. Pennington	County Judge/Executive
Charles Ray Pennington	Deputy Judge/Executive
Curtis L. Adkins	Magistrate
Clyde E. Lewis	Magistrate
Diana Penix	Magistrate
Kermit Vanhooose	Magistrate
Gary Porter	Magistrate
Glen Skaggs	Magistrate
Billy Wilson	Magistrate

Other Elected Officials:

John D. Lewis, Jr.	County Attorney
Jamie Stephens	Jailer
Reeda Ison	County Clerk
Delmaine Dickerson	Circuit Court Clerk
Ronnie Stephens	Sheriff
Lovell Mayse	Property Valuation Administrator
Mark Lewis	Coroner

Appointed Personnel:

Claudette Sturgill	County Treasurer
Fonda Weddington	Finance Officer

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 98,795	\$ 131,314	\$ 1,344,868	\$ 252,601
Total Assets	\$ 98,795	\$ 131,314	\$ 1,344,868	\$ 252,601
<u>Other Resources</u>				
Amounts to Be Provided In Future Years For:				
Capital Lease	\$ 20,000	\$	\$ 1,510,000	\$ 148,797
Bond Payments				1,798,602
Total Other Resources	\$ 20,000	\$	\$ 1,510,000	\$ 1,947,399
Total Assets and Other Resources	\$ 118,795	\$ 131,314	\$ 2,854,868	\$ 2,200,000

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Totals
(Memorandum Only)
Reporting
Entity

\$ 1,827,578

\$ 1,827,578

\$ 1,678,797
1,798,602

\$ 3,477,399

\$ 5,304,977

ELLIOTT COUNTY

The accompanying notes are an integral part of the financial statements.

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

	Governmental Fund Types			
	General	Special Revenue	Capital Projects	Debt Service
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Capital Leases:				
Kentucky Area Development				
District Financing Trust (Note 5A)	\$	\$	\$	\$ 240,000
Kentucky Area Development				
District Financing Trust (Note 5B)			1,510,000	
Acquisition Of Property (Note 5C)	20,000			
Bonds:				
First Mortgage Revenue				
Bonds (Note 4)				1,960,000
Total Liabilities	\$ 20,000	\$	\$ 1,510,000	\$ 2,200,000
<u>Equity</u>				
Fund Balances:				
Reserved	\$	\$ 131,314	\$ 1,344,868	\$
Unreserved	98,795			
Total Equity	\$ 98,795	\$ 131,314	\$ 1,344,868	\$
Total Liabilities and Equity	\$ 118,795	\$ 131,314	\$ 2,854,868	\$ 2,200,000

AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Totals
 (Memorandum Only)
 Reporting
 Entity

\$ 240,000

1,510,000

20,000

1,960,000

\$ 3,730,000

\$ 1,476,182

98,795

\$ 1,574,977

\$ 5,304,977

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	<u>General Fund Type</u>			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 2,390,959	\$ 665,155	\$ 751,481	\$ 31,731
Other Financing Sources:				
Transfers In	447,105	192,252	86,528	66,494
Capital Lease Proceeds	1,745,200			
Total Cash Receipts	<u>\$ 4,583,264</u>	<u>\$ 857,407</u>	<u>\$ 838,009</u>	<u>\$ 98,225</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 2,069,577	\$ 682,621	\$ 576,160	\$ 96,709
Other Financing Uses:				
Schedule of Unbudgeted Expenditures	408,557			
Schedule of Public Properties				
Corporation Fund Expenditures	36,887			
Transfers Out	447,105	227,053	192,120	
Bonds:				
Principal Paid	50,000			
Interest Paid	109,835			
Capital Lease - Principal	13,000		13,000	
Capital Lease - Interest	33,955			
Total Cash Disbursements	<u>\$ 3,168,916</u>	<u>\$ 909,674</u>	<u>\$ 781,280</u>	<u>\$ 96,709</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 1,414,348	\$ (52,267)	\$ 56,729	\$ 1,516
Cash Balance - July 1, 2001	413,230	62,315	30,342	40
Cash Balance - June 30, 2002	<u>\$ 1,827,578</u>	<u>\$ 10,048</u>	<u>\$ 87,071</u>	<u>\$ 1,556</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Type		Special Revenue Fund Type			
Local Government Economic Assistance Fund	Appalachian Regional Commission Fund	Fire Protection Fund	911 Fund	Community Development Block Grant Fund	Tourism Fund
\$ 225,357	\$	\$ 2,534	\$ 39,274	\$ 373,000	\$ 15,765
			1,224		
\$ 225,357	\$	\$ 2,534	\$ 40,498	\$ 373,000	\$ 15,765
\$ 271,345	\$	\$ 2,467	\$ 38,550	\$ 372,717	\$ 14,660
27,800	132				
\$ 299,145	\$ 132	\$ 2,467	\$ 38,550	\$ 372,717	\$ 14,660
\$ (73,788) 73,908	\$ (132) 132	\$ 67 17	\$ 1,948 2,171	\$ 283	\$ 1,105
\$ 120	\$	\$ 84	\$ 4,119	\$ 283	\$ 1,105

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

	Special Revenue Fund Type	Capital Projects Fund Type		Debt Service Fund Type
	Agriculture and Natural Resources Fund	Courthouse Renovation Fund	Library Construction Fund	Library Grant Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 140,071	\$ 768	\$ 7,457	\$ 125,158
Other Financing Sources:				
Transfers In				
Capital Lease Proceeds		235,200	1,510,000	
Total Cash Receipts	<u>\$ 140,071</u>	<u>\$ 235,968</u>	<u>\$ 1,517,457</u>	<u>\$ 125,158</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 14,348	\$	\$	\$
Other Financing Uses:				
Schedule of Unbudgeted Expenditures		235,968	172,589	
Schedule of Public Properties				
Corporation Fund Expenditures				
Transfers Out				
Bonds:				
Principal Paid				
Interest Paid				
Capital Lease - Principal				
Capital Lease - Interest				33,955
Total Cash Disbursements	<u>\$ 14,348</u>	<u>\$ 235,968</u>	<u>\$ 172,589</u>	<u>\$ 33,955</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 125,723	\$	\$ 1,344,868	\$ 91,203
Cash Balance - July 1, 2001				
Cash Balance - June 30, 2002	<u>\$ 125,723</u>	<u>\$</u>	<u>\$ 1,344,868</u>	<u>\$ 91,203</u>

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

Debt Service
Fund Type

Public
 Properties
 Corporation
Fund

\$ 13,208

100,607

\$ 113,815

\$

36,887

50,000
 109,835

\$ 196,722

\$ (82,907)
244,305

*

\$ 161,398

* Public Properties Corporation Fund prior year balance was adjusted due to miscalculation in prior year.

The accompanying notes are an integral part of the financial statements.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Elliott County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Public Properties Corporation Fund as part of the reporting entity.

The Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the Fiscal Court. The Corporation's governing body consists entirely of Fiscal Court members. Therefore, management must include the Corporation as a component unit and the Corporation's financial activity has been blended with that of the Fiscal Court.

Additional - Elliott County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Elliott County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Elliott County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Elliott County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund (LGEA), and the Appalachian Regional Commission Fund.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Elliott County Special Revenue Fund Type includes the following county funds: Fire Protection Fund, 911 Fund, Community Development Block Grant Fund, Tourism Fund, and Agriculture and Natural Resources Fund. The Local Government Economic Development Fund was reported as a Special Revenue Fund Type in our prior year audit. This Fund has been closed and is no longer included in the financial statements.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Library Grant Fund and the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year. Receipts include annual lease payments from the Administrative Office of the Courts (AOC) for the Elliott County Courthouse and a state grant for the Public Library Lease.

4) Capital Projects Fund Type

Capital Projects Fund Type accounts for financial resources to be used for acquisition of major capital facilities. The Courthouse Renovation Fund and the Library Construction Fund of the Fiscal Court are reported as Capital Projects Fund Types.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund. The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Elliott County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Public Properties Corporation Fund (Capital Projects Fund). The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Elliott County Fiscal Court: the Elliott County Housing Authority and the Library.

G. Jointly Governed Organizations

A jointly governed organization is an entity that results from a multi-governmental arrangement that is governed by representatives from each participating government. The entity provides services to the citizens of each participating government, but there is no ongoing financial interest or responsibility by the participating governments. The jointly governed organization can act independently of each of the participating governments. The Northeast Kentucky Regional Industrial Park Authority meets the criteria noted above and is disclosed as an organization jointly governed by the Kentucky counties of Boyd, Carter, Elliott, Greenup, and Lawrence.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent. Hazardous covered employees are required to contribute 7 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Long-Term Debt

On April 26, 2000, the Elliott County Public Properties Corporation, a component unit of the Elliott County Fiscal Court, issued \$2,010,000 in First Mortgage Revenue Bonds for the Courthouse Renovation. Semiannual principal and interest payments are required in September and March of each year beginning September 2001.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 4. Long-Term Debt (Continued)

The Elliott County Public Properties Corporation is acting as an agent for the Administrative Office of the Courts in order to manage and maintain the Elliott County Courthouse. The Elliott County Public Properties Corporation expects rentals for use of the Elliott County Courthouse to be in the full amount of the principal and interest requirements of the bonds through March 2003. Beginning March 2003, Elliott County will be responsible for a portion of the annual principal and interest requirements of the bonds. The Elliott County Public Properties Corporation expects annual rentals to cover a portion of the annual principal and interest requirements of the bonds and transfers from the Elliott County General Fund to cover the balance.

Under the terms of a lease, the Administrative Office of the Courts has agreed to pay directly to the paying agent bank, the use allowance payments as provided in the lease. The lease agreement is renewable each year. The Elliott County Public Properties Corporation is in reliance upon the use allowance payments in order to meet debt service on the bonds through March 2003. Thereafter, the Elliott County Public Properties Corporation will be in reliance upon the use allowance payment and transfers from the General Fund in order to meet debt service on the bonds.

The Administrative Office of the Courts with the execution of the lease of expressed its intention to continue to pay the full use allowance payments until March 2003. Thereafter, the Administrative Office of the Courts has expressed its intention to continue to pay partial use allowance payments. However, the lease does not obligate the Administrative Office of the Courts to do so.

As of June 30, 2002, the principal balance on these bonds was \$1,960,000. Debt service requirements for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 107,435	\$ 50,000
2004	105,035	50,000
2005	102,535	55,000
2006	99,785	55,000
2007	96,980	60,000
2008-2012	435,850	340,000
2013-2017	333,225	450,000
2018-2022	192,620	595,000
2023	17,385	305,000
Totals	<u>\$ 1,490,850</u>	<u>\$ 1,960,000</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Leases

A. On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust to finance the completion of the renovation of the County's Courthouse facility in the amount of \$240,000. The agreement requires two semiannual interest payments be made in March and September of each year commencing March 20, 2002. Principal payments are due in September of each year commencing September 20, 2002, to be paid in full September 20, 2026. As of June 30, 2002, the principal balance remaining was \$240,000. Lease payments for the remaining years are:

B.

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 12,491	\$ 5,000
2004	12,279	5,000
2005	12,066	5,000
2006	11,854	5,000
2007	11,641	5,000
2008-2012	54,635	30,000
2013-2017	44,112	50,000
2018-2022	30,200	60,000
2023-2027	10,500	75,000
Totals	<u>\$ 199,778</u>	<u>\$ 240,000</u>

B. On December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust for the construction of the Elliott County Public Library in the amount of \$1,510,000. Semiannual principal and interest payments are required in May and November of each year beginning May 20, 2002. As of June 30, 2002, the principal balance on these bonds was \$1,510,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 72,715	\$ 45,000
2004	71,165	50,000
2005	69,415	50,000
2006	67,540	50,000
2007	65,440	55,000
2008-2012	287,930	315,000
2013-2017	200,185	410,000
2018-2022	75,735	535,000
Totals	<u>\$ 910,125</u>	<u>\$ 1,510,000</u>

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Capital Leases (Continued)

- C. On August 7, 2001, the Elliott County Fiscal Court entered into a lease agreement with Kenneth Lee Gambill and Ruth Lillian Gambill to purchase property in the amount of \$33,000. The agreement requires three annual principal payments commencing August 10, 2001, to be paid in full August 15, 2003. As of June 30, 2002, the principal balance remaining was \$20,000. Lease payments for the remaining years are:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2003	\$ 0	\$ 10,000
2004		<u>10,000</u>
Totals	<u>\$ 0</u>	<u>\$ 20,000</u>

Note 6. Insurance

For the fiscal year ended June 30, 2002, Elliott County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 716,278	\$ 665,155	\$ (51,123)
Road and Bridge Fund	875,500	751,481	(124,019)
Jail Fund	32,432	31,731	(701)
Local Government Economic Assistance Fund	275,800	225,357	(50,443)
Appalachian Regional Commission Fund	25		(25)
<u>Special Revenue Fund Type</u>			
Fire Protection Fund	2,625	2,534	(91)
911 Fund	35,411	39,274	3,863
Community Development Block Grant Fund	392,000	373,000	(19,000)
Tourism Fund	310,000	15,765	(294,235)
Agriculture and Natural Resources Fund	290,000	140,071	(149,929)
<u>Capital Projects Fund Type</u>			
Courthouse Renovation Fund		768	768
Library Construction Fund		7,457	7,457
<u>Debt Service Fund Type</u>			
Library Grant Fund	125,000	125,158	158
Public Properties Corporation Fund		13,208	13,208
Totals	<u>\$ 3,055,071</u>	<u>\$ 2,390,959</u>	<u>\$ (664,112)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,055,071
Add: Budgeted Prior Year Surplus			168,783
Less: Other Financing Uses			<u>(238,607)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 2,985,247</u>

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SCHEDULE OF OPERATING REVENUE

ELLIOTT COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES				
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Capital Projects Fund Type	Debt Service Fund Type
Taxes	\$ 231,566	\$ 190,496	\$ 41,070	\$	\$
In Lieu Tax Payments	16,957	16,957			
Excess Fees	1,860	1,860			
Licenses and Permits	1,242	1,242			
Intergovernmental Revenues	2,094,803	1,441,042	528,761		125,000
Charges for Services	97	97			
Miscellaneous Revenues	22,798	19,303	711		2,784
Interest Earned	21,636	2,727	102	8,225	10,582
Total Operating Revenue	<u>\$ 2,390,959</u>	<u>\$ 1,673,724</u>	<u>\$ 570,644</u>	<u>\$ 8,225</u>	<u>\$ 138,366</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

ELLIOTT COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 511,096	\$ 462,675	\$ 48,421
Protection to Persons and Property	250,748	240,384	10,364
General Health and Sanitation	31,933	29,190	2,743
Social Services	500	500	
Recreation and Culture	140,813	105,535	35,278
Roads	652,128	528,146	123,982
Road Facilities	85,500	75,500	10,000
Administration	279,137	184,905	94,232
Total Operating Budget - General Fund Type	\$ 1,951,855	\$ 1,626,835	\$ 325,020
Other Financing Uses:			
Transfers to Public Properties Corporation			
Fund-Courthouse Renovation Bonds			
Principal	50,000	50,000	
Interest	50,607	50,607	
Capital Lease Agreement-			
Principal on Lease	13,000	13,000	
TOTAL BUDGET - GENERAL FUND TYPE	<u>\$ 2,065,462</u>	<u>\$ 1,740,442</u>	<u>\$ 325,020</u>

ELLIOTT COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 For The Fiscal Year Ended June 30, 2002
 (Continued)

SPECIAL REVENUE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Protection to Persons and Property	\$ 36,674	\$ 36,512	\$ 162
General Health and Sanitation	392,000	372,716	19,284
Recreation and Culture	600,000	29,008	570,992
Administration	4,718	4,506	212
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$ 1,033,392	\$ 442,742	\$ 590,650

DEBT SERVICE FUND TYPE			
Expenditure Categories	Final Budget	Budgeted Expenditures	Under (Over) Budget
Other Financing Uses:			
Capital Lease			
Interest	\$ 125,000	\$ 33,955	\$ 91,045
TOTAL BUDGET - DEBT SERVICE FUND TYPE	\$ 125,000	\$ 33,955	\$ 91,045

SCHEDULE OF UNBUDGETED EXPENDITURES

ELLIOTT COUNTY
SCHEDULE OF UNBUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Courthouse Renovation Fund</u>	<u>Library Construction Fund</u>
Capital Projects		
Construction	\$ 234,445	\$ 164,948
Administration		
Bank Charges		453
Miscellaneous	<u>1,523</u>	<u>7,188</u>
Totals	<u>\$ 235,968</u>	<u>\$ 172,589</u>

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SCHEDULE OF PUBLIC PROPERTIES
CORPORATION FUND EXPENDITURES

ELLIOTT COUNTY
SCHEDULE OF PUBLIC PROPERTIES
CORPORATION FUND EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>Public Properties Corporation Fund</u>
Capital Projects	
Construction	\$ 35,387
Administration	
Account Fees	<u>1,500</u>
Total	<u>\$ 36,887</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of Elliott County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated March 5, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Elliott County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- The County Should Include All Accounts On Their Financial Statements

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Elliott County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and the federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a stylized flourish at the end.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 5, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Charles R. Pennington, Elliott County Judge/Executive
Members of the Elliott County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Elliott County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Elliott County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Elliott County's management. Our responsibility is to express an opinion on Elliott County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Elliott County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Elliott County's compliance with those requirements.

In our opinion, Elliott County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Elliott County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Elliott County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
March 5, 2003

FINDINGS AND QUESTIONED COSTS

ELLIOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Elliott County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. One instance of noncompliance material to the financial statements of Elliott County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Elliott County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Elliott County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant – Phase Three Water Line Extension Project, CFDA #14.228.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Elliott County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

None.

NONCOMPLIANCE

The County Should Include All Accounts On Their Financial Statements

On September 27, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$240,000 to finance the completion of the renovation of the County's Courthouse facility. Also, on December 20, 2001, the Elliott County Fiscal Court entered into a lease agreement with the Kentucky Area Development Districts Financing Trust in the amount of \$1,510,000 for the construction of the Elliott County Public Library. These funds were in accounts maintained by Fifth Third Bank and were not included on the County's quarterly reports. Since these lease agreements were in the County's name they should have been budgeted and the lease proceeds and expenditures included on the Treasurer's financial statements. We recommend all accounts belonging to the Elliott County Fiscal Court be budgeted and included on the financial statements in the future.

County Judge/Executive's Response:

We were unaware that this had to be budgeted. This will be in our future budgets.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

ELLIOTT COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

ELLIOTT COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant- Phase Three Water Line Extension Project (CFDA #14.228)	B-99-DC-21-001(053)	\$ 372,717
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- July 2001 Flood Relief (CFDA #83.503)	FEMA-1388-DR	<u>142,918</u>
Total Cash Expenditures of Federal Awards		<u>\$ 515,635</u>

ELLIOTT COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

The Schedule Of Expenditures Of Federal Awards includes the federal grant activity of Elliott County Fiscal Court and is presented on a modified cash basis of accounting.

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM


ELLIOTT COUNTY FISCAL COURT

For The Fiscal Year Ended
June 30, 2002

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
ELLIOTT COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Elliott County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Elliott County Judge/Executive

Elliott County Treasurer

